

**AUDIT OF THE
ESTILL COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2005

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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APPENDIX A:

CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

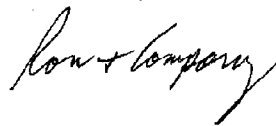
To the People of Kentucky
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(Continued)

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Boards (GASB) has determined is necessary to supplement, although not required to be part of, the basis financial records. The Budgetary Comparison Information is not a required part of the basis financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Estill County, Kentucky's basic financial statements. The accompanying supplement information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditure of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2006 on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed-
June 1, 2006

ESTILL COUNTY OFFICIALS

Fiscal Year Ended June 30, 2005

Fiscal Court Members:

Wallace C. Taylor	County Judge/Executive
Kevin Williams	Magistrate
Greg Hall	Magistrate
Darrell Johnson	Magistrate

Other Elected Officials:

Heather Combs	County Attorney
Jim Morris	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Deborah Barnes	Property Valuation Administrator
John Toler	Coroner

Appointed Personnel:

Laura Ann Rogers	County Treasurer
Christine Brandenburg	Finance Officer

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

ESTILL COUNTY
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 568,279	\$ 1,439	\$ 569,718
Total Current Assets	568,279	1,439	569,718
Noncurrent Assets:			
Capital Assets-Net of Accumulated Depreciation			
Land	620,000		620,000
Construction in Progress	45,835		45,835
Buildings	1,048,681		1,048,681
Furniture and Equipment	770,028		770,028
Vehicles	811,013		811,013
Infrastructure	387,449		387,449
Total Noncurrent Assets	3,683,006		3,683,006
Total Assets	4,251,285	1,439	4,252,724
LIABILITIES			
Current Liabilities:			
Revenue Bonds	8,617		8,617
Financing Obligations	79,340		79,340
Total Current Liabilities	87,957		87,957
Noncurrent Liabilities			
Revenue Bonds	106,790		106,790
Financing Obligations	973,283		973,283
Total Noncurrent Liabilities	1,080,073		1,080,073
Total Liabilities	1,168,030		1,168,030
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,514,976		2,514,976
Unrestricted	568,279	1,439	569,718
Total Net Assets	\$ 3,083,255	\$ 1,439	\$ 3,084,694

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For The Year Ended June 30, 2005

ESTILL COUNTY STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

Fiscal Year Ended June 30, 2005

Functions/Programs Reporting Entity	Program Revenue Received			Net (Expenses) Revenues and Changes in Net Assets		
	Primary Government			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
General Government	\$ 413,948	\$ -	\$ 123,191	\$ -	\$ (290,757)	\$ (290,757)
Protection to Persons and Property	1,777,686	20,808	1,444,541	10,689	(301,648)	(301,648)
General Health and Sanitation	144,844	273,454	157,827	60,000	346,437	346,437
Social Services	438				(438)	(438)
Recreation and Culture	4,189				(4,189)	
Roads	430,442		1,170,668		740,226	740,226
Debt Service(Interest)	51,708				(51,708)	(51,708)
Capital Projects	227,805				(227,805)	(227,805)
Administration	592,100				(592,100)	(592,100)
Total Government Activities	3,643,160	294,262	2,896,227	70,689	(381,982)	(377,793)
Business-type Activities:						
Jail Canteen Fund	1,505	1,568			63	63
Total Business-type Activities	1,505	1,568			63	63
Total Primary Government	\$ 3,644,665	\$ 295,830	\$ 2,896,227	\$ 70,689	\$ (381,982)	\$ (377,730)
General Revenues:						
Taxes:						
Real Property Taxes					\$ 206,038	\$ 206,038
Motor Vehicle Tax					61,801	61,801
Others Taxes					815,208	815,208
In Lieu of Taxes					6,340	6,340
Excess Fees					78,815	78,815
License and Fees					9,156	9,156
Unrestricted Investment Earnings					3,740	3,740
Miscellaneous Revenue					132,375	132,375
Total General Revenues					1,313,473	1,313,473
Changes in Net Assets					931,491	931,554
Net Assets-Beginning (Restated)					2,151,764	2,153,140
Net Assets-Ending					\$ 3,083,255	\$ 3,084,694

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

ESTILL COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash	\$ 249,142	\$ 48,815	\$ 4,462	\$ 177,980	\$ 87,880	\$ 568,279
Total Assets	<u>249,142</u>	<u>48,815</u>	<u>4,462</u>	<u>177,980</u>	<u>87,880</u>	<u>568,279</u>
FUND BALANCES						
Unreserved:						
General Fund	\$ 249,142	\$ -	\$ -	\$ -	\$ -	\$ 249,142
Special Revenue Funds		48,815	4,462	177,980	87,880	319,137
Total Fund Balances	<u>\$ 249,142</u>	<u>\$ 48,815</u>	<u>\$ 4,462</u>	<u>\$ 177,980</u>	<u>\$ 87,880</u>	<u>\$ 568,279</u>

Reconciliation To Statement Of Net Assets

Total Fund Balances	\$ 568,279
Amounts reported for Government Activities in the Statement Of Net Assets are difference because:	
Capital Assets Used in Government Activities are not Financial Resources and therefore are not reported in the funds.	5,157,809
Accumulated Depreciation	(1,474,803)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,052,623)
Revenue Bonds	(115,407)
Net Assets Of Government Activities	<u>\$ 3,083,255</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIEDCASH BASIS

For The Year Ended June 30, 2005

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS

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For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$1,033,001	\$	\$	\$	\$ 50,045	1,083,046
In Lieu Of Taxes	6,340	4,963				11,303
Excess Fees	78,815					78,815
Licenses and Permits	9,156					9,156
Intergovernmental	110,712	1,149,882	72,039	1,360,166	274,118	2,966,917
Charges for Services	283,695		8,763		1,804	294,262
Miscellaneous	57,000	65,832	4,035	473	72	127,412
Interest	3,335	325	50		30	3,740
Total Revenue	<u>1,582,054</u>	<u>1,221,002</u>	<u>84,887</u>	<u>1,360,639</u>	<u>326,069</u>	<u>4,574,651</u>
EXPENDITURES						
General Government	427,105				7,829	434,934
Protection to Persons and Property	256,772		373,444	1,457,807	33,593	2,121,616
General Health and Sanitation	65,570				77,674	143,244
Social Services	438					438
Recreation and Culture					4,189	4,189
Roads		836,378			6,906	843,284
Debt Service:						
Principal	805,243	118,539	8,103			931,885
Interest	37,916	9,709	3,916	167		51,708
Capital Projects		227,805				227,805
Administration	319,444	142,505	99,737	29,902	512	592,100
Total Expenditures	<u>1,912,488</u>	<u>1,334,936</u>	<u>485,200</u>	<u>1,487,876</u>	<u>130,703</u>	<u>5,351,203</u>
						4,419,318
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(330,434)</u>	<u>(113,934)</u>	<u>(400,313)</u>	<u>(127,237)</u>	<u>195,366</u>	<u>(776,552)</u>
Other Financing Sources (Uses)						
Transfers From Other Funds	194,692	296,447	403,543			894,682
Transfer To Other Funds	(576,477)	(161,068)			(157,137)	(894,682)
Lease Proceeds	1,085,000					1,085,000
Total Other Financing Sources (Uses)	<u>703,215</u>	<u>135,379</u>	<u>403,543</u>		<u>(157,137)</u>	<u>1,085,000</u>
Net Change in Fund Balances	372,781	21,445	3,230	(127,237)	38,229	308,448
Fund Balances-Beginning	(123,639)	27,370	1,232	305,217	49,651	259,831
Fund Balances-Ending (Restated)	<u>\$ 249,142</u>	<u>\$ 48,815</u>	<u>\$ 4,462</u>	<u>\$ 177,980</u>	<u>\$ 87,880</u>	<u>\$ 568,279</u>

The accompanying notes are an integral part of the financial statements.

**ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

ESTILL COUNTY
RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 308,448
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	993,279
Depreciation Expense	(217,121)

Financing obligation proceeds proved current financial resources to governmental funds while financing obligations and bond principal payments are expended in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

General Obligation Bonds	70,000
Financing Obligations	853,782
Revenue Bonds	8,103
Financing Obligations Proceeds	<u>(1,085,000)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 931,491</u></u>
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The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS – MODIFIED CASH BASIS

June 30, 2005

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS -
MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,439
Total Current Assets	<u>1,439</u>
Net Assets	
Unrestricted	1,439
Total Net Assets	<u><u>\$ 1,439</u></u>

The accompanying notes are an integral part of the financial statements.

**ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenue	
Canteen Receipts	\$ 1,568
Total Operating Revenue	<u>1,568</u>
Operating Expenses	
Entertainment	1,301
Miscellaneous	<u>204</u>
Total Operating Expense	<u>1,505</u>
Operating Income (Loss)	63
 Total Net Assets - Beginning	 <u>1,376</u>
Total Net Assets- Ending	<u><u>\$ 1,439</u></u>

The accompanying notes are an integral part of the financial statements.

**ESTILL COUNTY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

**ESTILL COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUNDS-MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

	Business- Type Activities Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,568
Claims Paid	(1,505)
Net Cash Provided By Operating Activities	<u>63</u>
Net Increase in (Decrease) in Cash and Cash Equivalent	63
Cash and Cash Equivalent-July 1, 2004	<u>1,376</u>
Cash and Cash Equivalents-June 30, 2005	<u><u>\$ 1,439</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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ESTILL COUNTY FISCAL COURT
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivables are recognized on the Statement of Assets, but note receivables are not included and recognized on the Balance Sheet - Governmental Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Estill County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt-consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets- resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by laws through constitutional provisions or enabling legislation, 3) unrestricted net assets- those assets that do not meet the definition of restricted net assets or invested capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, county road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

CSEPP Fund – These funds are received from the Department of Homeland Security and are to be used solely for the purpose of providing emergency preparedness in case of an accident involving the stockpile of chemical weapons at the Blue Grass Army Depot in Madison County. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, HB 502 Fund, CMRS Fund, Homeland Security Fund, EM Tower Fund, Emergency Management Fund and CERT Fund.

Special Revenues Funds:

The Road Fund, Jail Fund, CSEPP Fund, Local Government Economic Assistance Fund, State Grants Fund, HB 502 Fund, CMRS Fund, Homeland Security Fund, EM Tower Fund, Emergency Management Fund and CERT Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for enterprise fund include the cost of sales and services, and administrative expenses.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 50,000	5-10
Infrastructure	\$ 10,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Account Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution’s failure, the County’s deposits may not be returned to it. The County follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial risk. As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note. 3 Financing Obligations

In fiscal year 2005 the fiscal court entered into two lease agreements with the Kentucky Association of Counties. These agreements were for the purpose of retiring most other outstanding debt. As of June 30, 2005 the principal outstanding for these leases was \$ 1,102,623. The future minimum payments for these leases are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>
2006	\$ 129,203
2007	127,594
2008	127,056
2009	125,772
2010	123,999
2011-2015	454,235
2016-2020	<u>328,344</u>
Total Minimum Lease Payments	\$ 1,416,203
Less: Amount Representing Interest	<u>363,580</u>
Present Value of Minimum Lease Payments	<u>\$ 1,052,623</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases Ending Balance
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 620,000	\$	\$ 620,000
Construction in Progress		45,835	45,835
Total Capital Assets Not Being Depreciated	620,000	45,835	665,835
Capital Assets Being Depreciated:			
Buildings	1,568,927		1,568,927
Equipment (Office, Fire and Road)	982,517	362,662	1,345,509
Vehicles and Equipment	983,086	190,762	1,173,848
Infrastructure	10,000	393,690	403,690
Capital Assets Being Depreciated	3,544,530	947,444	4,491,974
Less Accumulated Depreciation For:			
Building	(483,842)	(36,404)	(520,246)
Equipment (Office, Fire and Road)	(465,305)	(110,176)	(575,481)
Vehicles and Equipment	(308,002)	(54,833)	(362,835)
Infrastructure	(533)	(15,708)	(16,241)
Total Accumulated Depreciation	(1,257,682)	(217,121)	(1,474,803)
Total Capital Assets Being Depreciated, Net	2,286,848	730,323	3,017,171
Government Activities Capital Assets, Net	\$ 2,906,848	\$ 776,158	\$ 3,683,006
<u>Governmental Activities:</u>			
General Government		\$ 39,674	
Protection to Persons and Property		123,237	
General Health and Sanitation		1,600	
Roads, Including Depreciation of General Infrastructure Assets		52,610	
Total Depreciation Expense – Governmental Activities		\$ 217,121	

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-Term Debt

A. Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of constructing a jail facility. The fiscal court subsequently, April 1, 1987, entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. The principal outstanding as of June 30, 2005, was \$115,407. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest and Fees</u>
2006	\$ 8,617	\$ 7,045
2007	9,162	6,481
2008	9,744	5,882
2009	10,362	5,244
2010-2014	11,019	4,566
2015	<u>66,503</u>	<u>11,060</u>
Total	<u>\$ 115,407</u>	<u>\$ 40,278</u>

B. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
General Obligation Bonds	\$ 70,000	\$	\$ 70,000	\$	\$
Revenue Bonds	123,510		8,103	115,407	8,617
Financing Obligations (Note 3)	<u>821,405</u>	<u>1,085,000</u>	<u>853,782</u>	<u>1,052,623</u>	<u>79,340</u>
 Government Activities					
Long-term liabilities	<u>\$ 1,014,915</u>	<u>\$ 1,085,000</u>	<u>\$ 931,885</u>	<u>\$ 1,168,030</u>	<u>\$ 87,957</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Interest on Long-term Debt and Financing Obligations

Debt service on the Statement of Activities includes \$49,615 in interest on financing obligations and \$2,093 in interest on bonds.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Subsequent Events

In July 2005 the county entered into a \$50,000 lease agreement with Kentucky Association of Counties Leasing Trust for the purpose of purchasing a tractor/mower. In April 2006 the county entered into a \$85,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of purchasing a building and land. Each lease called for a five-year repayment period with annual principal payments and monthly interest payments.

Note 10. Prior Period Adjustments

The beginning cash balance for the General Funds was adjusted by a total of \$14,723, (\$249 for prior year voided checks and \$14,474 for lease proceeds held by KACo that was omitted from prior year audits). In addition the beginning balance of Road Fund was adjusted by \$409, the Jail Fund by \$958 and CSEPP Fund by \$237, all for prior year voided checks.

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information – Modified Cash Basis
For the Year Ended June 30, 2005

ESTILL COUNTY
BUDGEARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information - Modified Cash Basis

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For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amount, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 937,799	\$ 1,035,192	\$ 1,033,001	\$ (2,191)
In Lieu Of Taxes			6,340	6,340
Excess Fees	39,658	78,814	78,815	1
Licenses and Permits	4,100	8,168	9,156	988
Intergovernmental Revenues	91,150	117,629	110,712	(6,917)
Charges for Services	274,961	282,206	283,695	1,489
Miscellaneous	46,050	58,191	57,000	(1,191)
Interest	160	160	3,335	3,175
Total Revenues	1,393,878	1,580,360	1,582,054	1,694
EXPENDITURES				
General Government	343,478	461,202	427,105	34,097
Protection to Persons and Property	310,025	334,728	256,772	77,956
General Health and Sanitation	61,644	72,790	65,570	7,220
Social Services	5,000	4,900	438	4,462
Debt Service:				
Principal	40,000	67,300	980,243	(912,943)
Interest	14,000	14,000	37,916	(23,916)
Capital Projects	3,000			
Administration	321,731	395,640	319,444	76,196
Total Expenditures	1,098,878	1,350,560	2,087,488	(736,928)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources and (Uses)	295,000	229,800	(505,434)	(735,234)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			194,692	194,692
Transfers To Other Fund	(300,000)	(300,000)	(576,477)	(276,477)
Lease Proceeds			1,085,000	1,085,000
Total Other Financing Sources and (Uses)	(300,000)	(300,000)	703,215	1,003,215
Net Changes in Fund Balances	(5,000)	(70,200)	197,781	267,981
Fund Balance-Beginning	5,000	36,638	51,361	14,723
Funding Balance-Ending	\$	\$ (33,562)	\$ 249,142	\$ 282,704

**Reconciliation of the Budgetary Comparison Schedule to Statement of Revenues,
Expenditures, and Changes in Fund Balance:**

Debt Service Principal Payments-Per Budgetary Comparison Schedule	\$ 980,243
Less: Short-term Note Payment	(175,000)
Long Debt Service Principal Payments-Per Statement of Revenue, Expenditures And Changes In Fund Balances	\$ 805,243
Beginning Balance-Per Budgetary Comparison Schedule	\$ 51,361
Less: Outstanding Short-term Note	(175,000)
Beginning Balance- Per Statement of Revenue, Expenditures and Changes In Fund Blances	\$ (123,639)

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu of Taxes	\$ 4,800	\$ 4,963	\$ 4,963	\$ -
Intergovernmental	926,069	1,286,994	1,149,882	(137,112)
Miscellaneous	200	62,178	65,832	3,654
Interest	300	300	325	25
Total Revenues	931,369	1,354,435	1,221,002	(133,433)
EXPENDITURES				
Roads	517,066	847,060	836,378	10,682
Debt Service:				
Principal	155,291	116,940	118,539	(1,599)
Interest	9,709	9,710	9,709	1
Capital Project	110,000	227,806	227,805	1
Administration	139,303	146,426	142,505	3,921
Total Expenditures	931,369	1,347,942	1,334,936	13,006
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		6,493	(113,934)	(120,427)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			296,447	296,447
Transfers To Other Funds			(161,068)	(161,068)
Total Other Financing Sources and (Uses)			135,379	135,379
Net Changes in Fund Balances		6,493	21,445	14,952
Fund Balances Beginning		27,069	27,370	301
Fund Balances-Ending	\$	\$ 33,562	\$ 48,815	\$ 15,253

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

JAIL FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 84,871	\$ 100,478	\$ 72,039	\$ (28,439)
Charges for Services	25,183	28,588	8,763	(19,825)
Miscellaneous	3,360	5,827	4,035	(1,792)
Interest	100	100	50	(50)
Total Revenues	113,514	134,993	84,887	(50,106)
EXPENDITURES				
Protection to Person and Property	304,023	392,259	373,444	18,815
Debt Service:				
Principal	15,934	8,103	8,103	
Interest	12,018	3,916	3,916	
Administration	93,557	160,216	99,737	60,479
Total Expenditures	425,532	564,494	485,200	79,294
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(312,018)	(429,501)	(400,313)	29,188
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	300,000	428,543	403,543	(25,000)
Total Other Financing Sources (Uses)	300,000	428,543	403,543	(25,000)
Net Changes in Fund Balances		(958)	3,230	4,188
Fund Balances-Beginning		958	1,232	274
Fund Balance-Ending	\$	\$	\$ 4,462	\$ 4,462

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES-MAJOR FUNDS
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2005 (Continued)

CSEPP FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 255,000	\$ 1,285,639	\$ 1,360,166	\$ 74,527
Miscellaneous		473	473	
Total Revenues	255,000	1,286,112	1,360,639	74,527
EXPENDITURES				
Protection to Persons and Property	225,407	1,546,120	1,457,807	88,313
Debt Service:				
Principal	2,993	2,993	167	2,826
Administration	26,600	42,216	29,902	12,314
Total Expenditures	255,000	1,591,329	1,487,876	103,453
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(305,217)	(127,237)	177,980
Net Changes in Fund Balances		(305,217)	(127,237)	177,980
Fund Balances Beginning		305,217	305,217	
Fund Balances-Ending	\$	\$	\$ 177,980	\$ 177,980

ESTILL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

ESTILL COUNTY
COMBINING BALANCE SHEET-
NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
June 30, 2005

	LGEA Fund	State Grant Fund	CMRS Fund	Homeland Security Fund	EM Tower Fund	Emergency Management Fund	CERT Fund	Total Governmental Funds
ASSETS								
Cash	\$ 1,192	\$ 46,660	\$ 29,445	\$ 83	\$ 1,804	\$ 2,946	\$ 5,750	\$ 87,880

FUND BALANCES

Fund Balances:

Unreserved:

Special Revenue Fund

Total Fund Balances

1,192	46,660	29,445	83	1,804	2,946	5,750	87,880
\$1,192	\$46,660	\$29,445	\$83	\$1,804	\$2,946	\$5,750	\$87,880

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES-NON-MAJOR GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
Other Supplementary Information

For The Fiscal Year Ended June 30, 2005

	LGEA Fund	State Grant Fund	HB 502 Fund	CMRS Fund	Homeland Security Fund	EM Tower Fund	Emergency Management Fund	CERT Fund	Total Governmental Funds
REVENUES									
Taxes	\$ 20,787	\$ 121,122	\$ 123,513	\$ 50,045	\$	\$	\$ 2,946	\$ 5,750	\$ 50,045
Intergovernmental									274,118
Charges For Services						1,804			1,804
Miscellaneous	72								72
Interest	30								30
Total Revenue	20,889	121,122	123,513	50,045		1,804	2,946	5,750	326,069
EXPENDITURES									
General Government	7,829								7,829
Protection to Persons and Property	3,504	10,689		19,400					33,593
General Health and Sanitation		77,674							77,674
Recreation and Culture	4,189								4,189
Roads	6,906								6,906
Administration		317		195					512
Total Expenditures	22,428	88,680		19,595					130,703
									130,704
Excess (Deficiency) of Revenue Over Expenditures Before Transfers and Financing Sources (Uses)	(1,539)	32,442	123,513	30,450		1,804	2,946	5,750	195,366
									195,366
OTHER FINANCING SOURCES (USES)									
Transfers To Other Funds			(123,513)	(33,624)					(157,137)
Total Other Financing Sources (Uses)			(123,513)	(33,624)					(157,137)
Net Change in Fund Balances	(1,539)	32,442		(3,174)		1,804	2,946	5,750	38,229
Fund Balances-Beginning	2,731	14,218		32,619	83				49,651
Fund Balances-Ending	\$ 1,192	\$ 46,660	\$	\$ 29,445	\$ 83	\$ 1,804	\$ 2,946	\$ 5,750	\$ 87,880

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2005

**ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County.
2. No reportable conditions relating to the audit of the financial statement are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Estill County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs of Estill County reported in Part C of this schedule.
7. The programs tested as a major program were: Public Assistance Grant-FEMA Disaster Relief-CFDA # 97.036; Chemical Stockpile Emergency Preparedness Program CFDA # 97.040; and Assistance to Firefighters Grant (FEMA Fire Grant) CFDA # 97.044.
8. The threshold for distinguishing Type A and B programs was \$300,000
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

- 1) Financial Audit:
 - a) The County's General Fund Should Not Have A Deficit Balance. Corrected.
 - b) The County Should Require Depository Institutions To Pledge Sufficient Collateral To Protect Deposits. Corrected.
- 2) Major Federal Awards Program Audit:

None

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2005

	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
U. S. DEPT. OF HOMELAND SECURITY			
<i>Passed Through Kentucky Department of Military Affairs:</i>			
Public Assistance Grants - FEMA Disaster Relief	97.036	104,968	**
Chemical Stockpile Emergency Preparedness Program	97.040	1,492,465	**
<i>Passed Through To Estill Co Fire Dept:</i>			
Assistance to Firefighter Grant (FEMA Fire Grant)	97.044	144,000	**
TOTAL U.S DEPARTMENT OF HOMELAND SECURITY		<u>1,741,433</u>	
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION			
<i>Administered by U.S. Dept of Commerce</i>			
Bluegrass PRIDE Grant	11.469	45,835	
TOTAL FEDERAL EXPENDITURES		<u>\$ 1,787,268</u>	

Tested as a major program **

ESTILL COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Estill County Fiscal Court and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

The Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents and have issued our report thereon dated June 1, 2006. Estill County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

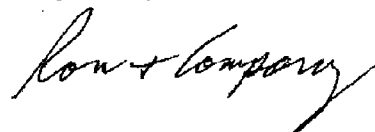
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report on Internal Control Over Financial Reporting And on
Compliance And Other Matters Based on an Audit Of Financial
Statements Performed In Accordance With Governmental Auditing Standards
(Continued)

This report is intended solely for the information and use of Estill County Fiscal Court, management, the Kentucky Governor's Office for Local Development and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company PLLC

Audit Fieldwork Completed -
June 1, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Telephone (502) 499-9088
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The Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Compliance With Requirements Applicable
To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Estill County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Estill County's compliance with those requirements.

In our opinion Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit Fieldwork Completed -
June 1, 2006

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

ESTILL COUNTY FISCAL COURT

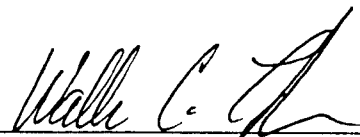
For The Fiscal Year Ended
June 30, 2005

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2005

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge Executive



Name
County Treasurer